12 May 2022

Commissioned research: Rovio – Key takeaways from CMD

Marketing material commissioned by Rovio

Rovio arranged a CMD yesterday (11 May) in Stockholm, providing an update on its strategy and financial targets as well as deep dives into the Angry Birds brand and technology platform Beacon. The company reiterated its strategy outlines with a sharp focus on wide-appeal casual mobile games, which coupled with the Angry Birds IP has made Rovio a relative winner in the midst of app tracking transparency (ATT) headwinds for the market, in our view. The highlight of the day to us was the deep dive to Rovio's technology platform Beacon, which appeared as a competitive advantage for Rovio due to its value-add to potential M&A targets and the data-driven decision-making tools for UA optimisation and game development that have also turned out valuable in changing market dynamics. In terms of financial targets, Rovio now aims to grow revenues and EBITDA faster than the western mobile gaming market growth, which admittedly points to limited operational leverage, but highlights the company's focus on absolute profit and cash flow generation through games with larger scale. Overall, the CMD echoed the company's improved focus and execution, which is already bearing fruit as witnessed in recent successful growth initiatives (AB Journey, Ruby Games). This keeps us optimistic on a sustainably better growth trajectory for Rovio, even though the normalising mobile gaming market with post-pandemic reopening impacts might present near-term headwinds.

No meaningful changes to strategy – sharp focus on casual free-to-play mobile games
Rovio maintained the core of its strategy intact, keeping its focus on wide-appeal mobile games in the casual genre and its different verticals, which has been the case since 2021. In addition to the strong Angry Birds IP, reliable game portfolio, talented development teams and good financial position, Rovio emphasised its technology platform Beacon as one of its key competitive advantages, enabling both organic and inorganic growth initiatives (more on this below). The platform, together with robust IP and wide-appeal games, has been the key factor for Rovio's relatively strong performance in the midst of ATT headwinds for the mobile gaming market, in our view. Key growth areas provided no meaningful surprises. On top of doubling down on current key live games and launching new games, Rovio seeks for growth via M&A, which is enabled by its EUR 172m of cash position and ~9% of own shares. Furthermore, the new Montreal ('future of gaming') and Toronto (casual) studios are expected to generate revenue from 2024 onwards.

New financial targets introduced – revenue and EBITDA growth to outpace market growth
Rovio updated its long-term financial targets, now aiming for revenue growth faster than western mobile gaming market, adjusted EBITDA growth in line with long-term revenue growth and a payout of 30% from net profit. While the revenue growth and payout targets were kept intact with the old targets introduced in the 2017 IPO, the earnings target was changed from an EBIT margin of 30% previously. Although the growth guidance does include both organic and inorganic growth,

we were left with the impression that Rovio intends to achieve the target with organic growth, which in our view, would require at least one successful game launch (eg AB Journey) per year. According to Newzoo's most recent forecasts, the global mobile gaming market is expected to grow at an 8% CAGR for 2021-24E. Infront consensus (pre-Q1) is currently estimating 6% revenue and 7% adjusted EBITDA CAGR for Rovio for 2021-24E. We see that the new financial targets came in broadly in line with market expectations, although the EBITDA growth target points to limited operational leverage for Rovio in the longer run. It appears to us that rather than focusing on margin expansion, Rovio's focus now more than ever is on maximising absolute profit and cash flow, which new games to reach significant scale. Comfortingly, the past three-year average margin levels for current live games AB2 (49%), ABDB (32%) and AB Friends (64%) reveal good potential for cash flow generation once games reach a certain scale and level of maturity.

Angry Birds brand still very much alive and kicking
Rovio seemed confident in the appeal of its well-known Angry Birds brand, which according to the has never been stronger. Proof of this can be observed from recent revenue growth in its largest games (AB2, ABDB, AB Friend, AB Journey) as well as from AB-related Youtube views that were up 60% in 2021 versus 2018 and watchtime that was up 109% in 2021 versus 2018. As initiatives for maintaining strong brand recognition, Rovio has launched a remake of its original 2012 Angry Birds game and is intending to launch an Angry Birds themed DLC for Minecraft in cooperation with Microsoft.

Beacon technology platform a competitive advantage for Rovio
Rovio historically been fairly tight-lipped about its technology platform Beacon to the public, which made the Beacon deep dive the highlight of the CMD, in our view. The platform has seen over 11 years of investment and today acts as a key competitive advantage for Rovio, assisting with adapting to changing market dynamics (ATT, demand shifts) and working as a key selling point when negotiating for M&A deals. The platform consists of a clean and reliable data bank, including tools for live ops, KPI benchmarking, analytics and cross promotion, among other things. It allows for quick iteration in game development and effective UA optimisation for live games as witnessed in a case example for AB2, but in our view its most significant value lies in its value proposition to acquisition candidates that most often lack similar tools due to inadequate financial resources. According to our impression, Beacon was the key differentiator in Rovio's acquisition of Ruby Games and the platform is already bearing fruit in terms of efficiency gains and cross promotion.

SUMMARY TABLE - KEY FIGURES

EURm	2019	2020	2021	2022E	2023E	2024E
Total revenue	289	272	286	342	367	377
EBITDA (adj)	33	65	57	56	67	73
EBIT (adj)	18	47	44	42	54	62
EBIT (adj) margin	6.4%	17.3%	15.3%	12.3%	14.8%	16.4%
EPS (adj, EUR)	0.17	0.48	0.49	0.45	0.57	0.66
EPS (adj) growth	-44.5%	180.7%	4.0%	-9.8%	28.8%	14.1%
DPS (ord, EUR)	0.09	0.12	0.12	0.13	0.14	0.15
EV/Sales	0.9	1.2	1.2	1.5	1.3	1.1
EV/EBIT (adj)	13.5	7.1	8.2	12.1	8.7	7.0
P/E (adj)	26.1	13.3	13.3	18.8	14.6	12.8
P/BV	2.1	2.8	2.4	2.8	2.4	2.1
Dividend yield (ord)	2.0%	1.9%	1.8%	1.5%	1.7%	1.8%
FCF Yield bef A&D, lease adj	1.8%	12.6%	7.7%	4.2%	8.0%	8.5%
Net debt	-110	-129	-126	-109	-144	-183
Net debt/EBITDA	-3.4	-2.2	-2.5	-2.0	-2.2	-2.5
ROIC after tax	30.0%	79.7%	55.9%	33.2%	38.7%	44.9%

Source: Company data and Nordea estimates

Completion date: 12 May 2022, 07:12 CET

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